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Development Cooperation Forum

Trends and progress in international development cooperation

Report of the Secretary-General

Summary

The present report is submitted for the consideration of the Development Cooperation Forum, in accordance with General Assembly resolution 61/16.

The global economic environment has changed fundamentally since the last Development Cooperation Forum, with a deep economic and financial crisis, increased food insecurity, oil price volatility and climate change. As a result, the crucial development gains made over the past decade or more are beginning to erode. In such circumstances, effective development cooperation becomes even more vital.

The present report summarizes progress in the implementation of certain aspects of the global partnership for development and discusses coherence in policies in both developed and developing countries. It also reviews trends related to the delivery of commitments on aid quantity, the impact of recent global crises, aid allocation practices, the framework for aid effectiveness, mutual accountability in development cooperation and the role of South-South and triangular cooperation. The report concludes with a set of messages and recommendations aimed at enhancing development cooperation.

The report emphasizes the need for national ownership of national development plans, as well as for transparent, equal and responsible partnerships built on trust among programme and provider countries, as key to enhancing the impact of development cooperation on the ground. It emphasizes the importance of including all stakeholders, including civil society organizations, the private sector, parliamentarians, foundations and local governments, in enhancing the effectiveness of development cooperation.

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I. Introduction

1. At the 2005 World Summit, world leaders decided that the Economic and Social Council should convene a biennial high-level Development Cooperation Forum to review trends and progress in international development cooperation, promote greater coherence in the development activities of different development partners and strengthen the link between the normative and operational work of the United Nations.

2. The Development Cooperation Forum has also been mandated to identify gaps and obstacles in international development cooperation and to make recommendations on practical measures and policy options. In its 2007/08 cycle, the Forum became a key mechanism for inclusive global dialogue and policy review on development cooperation issues, which was recognized in the outcome document of the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus (Doha, 2 December 2008).

3. Preparations for the 2010 Development Cooperation Forum have involved the analysis of overall trends in development cooperation, especially the impact of recent crises and climate change-related financing, aid allocation for achieving the internationally agreed development goals and aid effectiveness. Preparations have also focused on a few priority issues for improving the results of development cooperation: its coherence with other development policies, its accountability and transparency and developments in South-South and triangular cooperation.

4. The discussions at the 2010 Forum, based on the present report, are intended to contribute forward-looking and innovative recommendations to inform the High-level Plenary Meeting of the General Assembly on the Millennium Development Goals, to be held in September 2010. They should also feed into the Fourth High-level Forum on Aid Effectiveness, to be held in Seoul in 2011.

II. Global partnership for development: mixed progress[1]

Without progress across the board, development cooperation can have only limited impact.

5. The global economic environment has changed fundamentally since the last Development Cooperation Forum, with the worst economic and financial crisis since the Great Depression, increased food insecurity, volatile oil prices and climate change. The world economy shrank by 2.0 per cent in 2009, and recovery will be fragile in 2010. Earlier growth did not necessarily translate into poverty reduction; as a result, large parts of the world remain far from meeting the internationally agreed development goals, including the Millennium Development Goals. The crisis has driven more than 60 million people into poverty and more than 100 million people into hunger, further reducing the prospects of achieving the Millennium Development Goals. It has also reduced the scale of private flows and demonstrated once again the volatility of such flows and the need to enhance their contribution to development. Despite progress in some areas of the global partnership for development, most areas are not living up to expectations, especially in sub-Saharan Africa and the least developed countries. In such circumstances, development

[1] For a more comprehensive analysis on the global partnership for development, please see the *Millennium Development Goal Gap Task Force Report 2010*.

cooperation becomes even more vital, but without progress across the board on all aspects of the internationally agreed development goals, including the Millennium Development Goals, development cooperation will have a limited impact.

Private flows are volatile, and more efforts are needed to enhance development contribution.

6. Private capital flows will be essential in helping many countries to achieve the internationally agreed development goals by 2015. They are highly procyclical, however, and vulnerable to external shocks. It may be desirable for countries to further explore measures that mitigate excess volatility, such as appropriate capital controls and financial regulation and supervision, especially with respect to short-term capital flows.

7. At the global level, foreign direct investment (FDI) inflows are expected to fall from $1.7 trillion in 2008 to below $1 trillion in 2009, and a slow recovery is expected in 2010. The development contribution of FDI is as important as its quantity. There is strong evidence that FDI is increasingly reaching the poorest countries. While it remains concentrated in the extractive industry in the poorest countries, it is increasingly diversifying into other sectors. In many instances, however, FDI is not reaching the poorest regions within countries, owing to a lack of infrastructure, and there is little evidence that FDI flowing to these countries is leading to a significant upgrading of skills or technology transfer, or to strengthening links to local industries. Most profits continue to be repatriated, and many investors are tax-exempt. Much more needs to be done to enhance the development contribution of FDI, in particular by implementing multilateral tax information exchange agreements and requiring transnational corporations to report profits on a country-by-country basis so that tax revenues from investment can fund crucial development expenditures.

Cost reductions and diaspora bonds could channel remittances to investment in the internationally agreed development goals.

8. Migrant remittances represent a significant portion of the gross domestic product (GDP) of many countries and a vital income support for many poor households. They have increased fourfold since the early 1990s, and have fallen less sharply than other flows during the global crisis. Channelling more remittances through the banking systems of programme countries, reducing the costs of transfers, and channelling them into public investment through "diaspora bonds" could increase their developmental impact considerably.

Trade rebounding from crisis but no progress on development round.

9. The global crisis sparked a 13 per cent contraction in global trade, the largest decline since World War II, and was accompanied by some protectionist measures, albeit ones of low intensity. Trade is set to rebound by 7.6 per cent in 2010, but persistent unemployment could intensify protectionist pressures. Trade among developing countries is rebounding even more sharply, and looks set to continue to grow.

10. Trade remains a key driver of growth in the poorest countries, but the extent to which it supports sustainable human development depends on its rules and the capacity of countries to boost economic growth and job creation through trade. The

successful completion of the Doha Round, with a strong pro-development and pro-poor outcome in agriculture, non-agriculture market access and services, is urgently required to help countries make the most of trade opportunities and to foster increased investments in the internationally agreed development goals. Particularly vital will be market access for agricultural exports, requiring the elimination of agricultural subsidies in developed countries, and initiatives to build the capacity of programme countries to trade by improving infrastructure and productive capabilities, including through support of the Aid for Trade Initiative.

Debt relief falls sharply; urgent need for a workout mechanism.

11. Debt relief fell sharply in the period 2007-2009, with the declining impact of both the heavily indebted poor countries debt initiative and the Multilateral Debt Relief Initiative and the end of exceptional packages for Iraq and Nigeria. These initiatives have helped some of the world's poorest and most heavily indebted countries mobilize resources for investment in poverty reduction and development. Much of the debt relief funding was not additional to existing aid, however, but rather represented accounting transfers among creditor agencies to clear arrears.

12. The global economic and financial crisis has contributed to higher debt burdens in most developed and developing countries, eroding part of the progress made since the Heavily Indebted Poor Country Initiative and the Millennium Summit. The risks of unsustainable debt in low-income countries have increased considerably, and debt service in many programme countries remains unacceptably high, preventing Governments from scaling up investments in the internationally agreed development goals. In particular, insufficient attention has been paid, including in the Heavily Indebted Poor Country Initiative, to the debt burdens of middle-income countries and small and vulnerable economies, and to private sector and domestic debts. Additional debt relief will be required to reduce the burdens of other countries to sustainable levels and to foster economic recovery. This could take the form of an interest-free moratorium on debt service payments for all developing countries with moderate to high debt burdens, in order to release extra funds for investment in achieving the internationally agreed development goals. Efforts should also be made to extend the Heavily Indebted Poor Country Initiative to include all low-income countries and lower-middle income vulnerable countries.

13. Fears over new rounds of unsustainable debt in the wake of the global recession have increased the urgency of reaching an international agreement on a fair and transparent international debt workout procedure, ideally under the aegis of the United Nations for the sake of legitimacy and credibility. Such a mechanism would restructure unpayable sovereign debt in a fair, predictable and orderly fashion, thereby lowering costs for creditors, ensuring burden sharing among them and reducing the likelihood that economic crisis and spending cuts would be damaging to the development prospects of debtor countries.

Urgent requirements for development-oriented financial regulation.

14. The crisis has added urgency to the appropriate regulation of international financial markets. Complex globalized financial instruments continue to develop, exacerbating risks in the world economy and requiring reforms to strengthen regulatory and supervisory frameworks, national and international financial standards and taxation of financial institutions and transactions. In particular, developing countries continue to have very little voice in the formulation of global

financial regulations, which therefore remain less adapted to their needs and capacities, let alone to their development aspirations. It is essential to enhance the representation of developing countries, especially low-income countries, in regulatory standard-setting bodies such as the Financial Stability Board in order to increase the legitimacy and effectiveness of such bodies.

Increased voice and participation are needed.

15. Progress has been achieved since the previous Development Cooperation Forum on the global financial architecture, with increased voice and participation of some developing countries in international financial decision-making and norm-setting. Reflecting the growing economic weight of large emerging economies, this has included the gradual transfer of decision-making with regard to the international financial system and changes in voting rights in the International Monetary Fund (IMF) and the World Bank. It is vital that changes in the voting rights in the Bretton Woods institutions be made more substantial in order to reflect changes in global economic power. It is also essential that the legitimate role of the United Nations in leading global economic discussions continue to be enhanced. Such reforms, especially if reflected in more balanced global governance of development cooperation, have the potential to bring fundamental improvements in the prospects for attaining Millennium Development Goal 8 and the internationally agreed development goals as a whole, and for overcoming the crises.

III. Policy coherence for increased impact of development cooperation

16. Development cooperation alone cannot produce results. It needs to be reinforced by a diverse yet consistent range of policies in developed and developing countries geared towards supporting national development priorities and accomplishing the internationally agreed development goals, including the Millennium Development Goals. Greater policy coherence for development means ensuring that all policies are formulated with development objectives uppermost, and that those policies which undermine development objectives are avoided. To ensure that policies "beyond aid" deliver development, progress is needed on two fronts. Developed countries need to ensure that all policies support progress towards the internationally agreed development goals. Developing countries need to engage more effectively with "beyond aid" issues by designing comprehensive policies and strengthening implementing institutions.

17. For countries providing and receiving development cooperation, policy coherence spans four dimensions: coherence between development cooperation and the other policies of each provider or recipient country (the "whole of government" approach); coherence within development cooperation programmes of several donors; coherence of aid and non-aid policies among all provider and recipient countries; and coherence (or "alignment") between provider policies and the development strategies of programme countries. The present report focuses on the first aspect, the "whole of government" approach, and looks at both provider and programme countries.

Provider countries: mixed progress reflects low political will and points to limited evidence.

18. Donor country development policies are concentrated mainly on official development assistance (ODA) and do not take into account the major impact of other policies in areas such as trade, the environment, climate change, security, agriculture, fisheries, the social dimensions of globalization, employment and decent work, migration, research and innovation, the information society, transport and energy, international finance and investment and the policies of multilateral institutions. This vast range of policies is driven by different agendas, priorities, bureaucracies and conceptions of the developmental process, along with a diverse set of actors whose perspectives, priorities, time horizons and interests may not coincide.

19. Nevertheless, donor countries are beginning to take measures to increase coherence. The European Union agreed in 2005 to advance a new Policy Coherence for Development framework based on five themes and has since worked to strengthen Policy Coherence for Development procedures, instruments and mechanisms in member States, resulting in at least 12 member States introducing or reiterating legislation committing them to Policy Coherence for Development. Nevertheless, each member State identifies its own priorities, fixes its own targets and decides on its own mechanisms (legislation, institutional arrangements and assessment tools) for making policies coherent.

20. The Organization for Economic Cooperation and Development (OECD) has assessed progress in three phases. While some (especially European Union) members of the OECD Development Assistance Committee have set and prioritized objectives through policy statements and a few have given Policy Coherence for Development a central place in a whole of government approach to development, some have yet to make any policy commitments. Most members of the Development Assistance Committee with policy statements have informal mechanisms for coordinating policy and resolving conflicts or inconsistencies. Only a few systematically screen legislative proposals for development impacts, and just one has a dedicated policy coherence unit. Five European Union members have in place systems for monitoring, analysis and reporting to parliament and the public, but most Development Assistance Committee members do not.

21. Progress by members of the Development Assistance Committee on Policy Coherence for Development has been mixed because development is not at the top of the political agenda. There should also be more systematic evidence about the benefits of coherence and the costs of a lack of coherence. Better evidence from developing countries, including mapping the influence of external factors on development, needs to be gathered, working with organizations based in developing countries. Improved analytical work in provider countries focusing on specific policy issues such as migration, trade or climate change could also give Policy Coherence for Development a higher priority. More systematic political engagement will also be vital to convince stakeholders of the benefits of coherence, to change political views and drive progress.

Programme countries need to accelerate initial efforts to develop "beyond aid" policies.

22. Programme countries need to ensure that policies are coherent, and they also need to bring together all Government ministries and agencies to design integrated policies. Almost all programme countries do not have clear "beyond aid" coherence policies. For example, they have not defined clearly the role they foresee for different types of external and domestic development financing in supporting their national development strategies. As a result, they also do not have clear coordination structures or monitoring and reporting requirements linked to policy statements. These gaps are partly explained by a lack of capacity, best practice documentation and national coordination mechanisms.

23. In the case of programme countries, coherence applies to two sets of issues. First, it means being consistent across the range of issue areas in which they engage with external stakeholders, covering the whole of the Millennium Development Goal 8 partnership. This would imply dealing with, at the very least, trade, agriculture, FDI, other sources of finance and debt, regional integration and globalization, migration and remittances, climate change and the environment and technology transfer. Examples of key policies here might include avoiding tax exemptions for investors and development cooperation providers, whenever possible, so as to maximize tax revenues for development and reduce dependence on development cooperation for budget financing. Such policies would be facilitated by the existence of an international tax cooperation framework.

24. Second, it means making sure all aspects of their own policies relating to external engagement and impacts on development are consistent with the core focus of their national development strategies. For example, trade and investment policies need to be pro-poor, focusing on enhancing employment and livelihoods for the poorest households and regions (especially women farmers and entrepreneurs). Similar efforts could be made with financial sector development policies, in order to emphasize the mobilization and investment of domestic savings and the enhancement of foreign investment and links to global markets, or with investment in more efficient energy use in order to increase export competitiveness.

Need for greater "aid coherence" for reducing aid dependence.

25. Programme countries and other stakeholders have also expressed concerns about two other types of policy coherence specifically linked to the impact of development cooperation, highlighting the need for what might be called "aid coherence". The first of these is that lack of coherence in provider policies can undermine the impact of development cooperation on growth and sustainable development. To reverse this, providers of aid need to actively pursue policies that will make their aid more effective.

26. The second is the need to develop indicators and best practices for development cooperation that is designed to promote other forms of financing for development, i.e., ways for development cooperation to reduce long-term aid dependence. Rapidly growing shares of development cooperation are being provided to promote trade ("aid for trade" for capacity-building for trade and infrastructure), foreign and domestic private sector investment (through investment climate reform, infrastructure and co-financing of private sector projects), financial sector reforms, domestic savings and investment, revenue mobilization or enhanced public financial

management and expenditure efficiency. No authoritative studies exist of best practices in these areas, however.

27. The ideal route in developing policy coherence would be for each programme country to develop a coherent "beyond aid" strategy for Millennium Development Goal 8, for providers to endorse this strategy and for both groups to commit to actions and indicators of their implementation of the strategy, which could be monitored annually. Several programme countries, including Uganda and Viet Nam, are beginning such a process. The Development Cooperation Forum will continue to assess these processes with a view to establishing best practices for policies that go "beyond aid" to all aspects of cooperation.

IV. Recent trends in international development cooperation

A. Aid quantity: continuing diversification but more needs to be delivered

28. As at the end of 2009, international development cooperation in a broad sense is estimated to have exceeded $170 billion. Within this total (see figures I and II), the share of bilateral assistance from members of the OECD Development Assistance Committee has continued to decline, from 51 per cent in 2006 to 45 per cent in 2008, while Development Assistance Committee contributions to multilateral aid have remained the same. There has been a continuing rise in the importance of non-Development Assistance Committee (including South-South) cooperation (to 10.5 per cent) and global funds and private philanthropy (to 17 per cent).

Figure I
International development cooperation, 2006

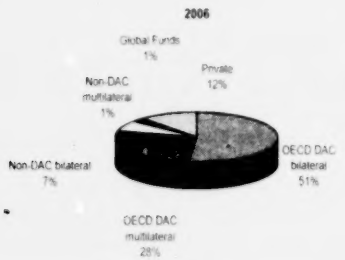
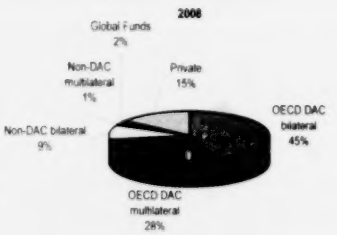


Figure II
International development cooperation, 2008



29. There has been a substantial increase in development cooperation flows since 2005; however, while Development Assistance Committee aid rose by 20 per cent during the period 2006-2008, South-South cooperation rose by 63 per cent and private contributions by at least 62 per cent.

30. In 2009, Development Assistance Committee donors were providing less ODA in real terms than they did in 2005. Compared with pledges of $126 billion, or 0.37 per cent of gross national income (GNI), made in 2005, Development Assistance Committee donors are likely to fall short by $18 billion (0.04 per cent of

GNI) globally by the end of 2010, and by $14 billion for sub-Saharan Africa.[2] On the other hand, because debt relief has declined sharply in recent years, a considerably higher proportion of aid flows now represents country programmable aid, which represents real additional transfers to developing countries.

31. The ability to meet targets has been fundamentally determined by the ambitiousness of firm budgetary plans set by providers, and by improved planning of disbursements as a result of the increased use of programme-based support.

32. Looking ahead, 15 European Union members remain collectively committed to their ODA reaching or staying above 0.7 per cent of GNI by 2015. Norway is also expected to continue to contribute 1 per cent of GNI. There is an urgent need for other OECD donors to, at the High-level Plenary Meeting of the General Assembly on the Millennium Development Goals, set deadlines for reaching 0.7 per cent of GNI by 2015, and for all donors to put in place immediately plans for scaling up disbursements via the enhanced use of programme-based aid in order to ensure that aid levels rise sufficiently to fund the internationally agreed development goals. Meeting ODA commitments requires that all Development Assistance Committee donors integrate their commitments into budgetary planning.

B. Impact of the crises: higher needs, some additional financing, less aid

33. The multiple global crises during the period 2006-2009 have had four major impacts on development cooperation.

34. First, they have increased programme country financing needs considerably, for food and energy security as well as for filling budget and balance-of-payment financing gaps. Most programme countries had to increase subsidies in order to smooth out rises in food and fuel prices and in spending on food security programmes, as well as increasing wages and other transfers, in order to offset the impact of higher inflation. Recent analysis has shown that neither food nor petroleum prices have decreased significantly for developing country consumers during 2009 and 2010. The global financial crisis sharply increased unemployment and poverty in many countries, requiring increased spending on retraining and social safety nets and creating a huge "fiscal hole", exceeding $64 billion in low-income countries in 2009 and 2010.

35. Second, the crises resulted in more analysis of the financing needs of programme countries, highlighting underlying problems related to the internationally agreed development goals that have not been tackled and identifying preferred channels for mobilizing or providing financing, including innovative mechanisms for financing development.

36. Third, the food and financial crises resulted in large pledges of financing, but only small proportions of these were additional. Only $6 billion of the $22 billion pledged for food and nutrition at the G20 Pittsburgh Summit in 2009 are likely to be additional. The financial crisis resulted in pledges of $240 billion for programme countries at the G20 London Summit, but only around $100 billion of this was additional (issuance of special drawing rights, higher IMF lending for low-income countries and some additional trade finance). The rest represented the frontloading

[2] Dollar figures are at 2004 prices and exchange rates.

of disbursements by multilateral development banks and bilateral trade finance agencies.

37. Fourth, the global financial crisis has reduced the aid budget plans of some donors. While the impact on actual flows in 2009 was marginal, virtually all Development Assistance Committee donors decreased their nominal aid disbursement plans in line with the fall in their GNI. This impact should not be exaggerated. As at May 2010, only nine Development Assistance Committee providers had reduced or slowed their percentage GNI commitments for 2010-2012. In addition, although a few Southern providers have reduced their cooperation, many more have increased it, notably Brazil, China, India and Saudi Arabia. Similarly, private philanthropy (both Northern and Southern) has continued to increase.

C. Climate finance: urgent additional innovative funding needs for spending on the internationally agreed development goals

38. The Conference of the Parties to the United Nations Framework Convention on Climate Change held in Copenhagen in 2009 thrust the issue of climate finance centre stage, with commitments by OECD countries to provide $10 billion a year during the period 2010-2012 and $100 billion a year by 2020 to address the needs of programme countries for adaptation and mitigation spending against climate change. These commitments fall well short of needs, which are estimated at $170 billion to $275 billion a year over the next 20 years.

39. The main current mechanisms being used to fund mitigation measures are the Clean Development Mechanism and other market-based mechanisms. There are major questions, however, about whether these genuinely promote sustainable development by sponsoring projects and delivering funding that are additional, as well as about their capacity to approve and assess projects rapidly enough and their concentration of funding in large emerging economies, with very little in low-income countries or least developed countries.

40. Therefore, if additional financing sources are not found, ODA may be diverted away from funding the internationally agreed development goals to climate finance instead. This is exacerbated by the failure of almost all Development Assistance Committee Governments to pledge that their climate financing will be additional to ODA and the fact that already around 4 per cent of ODA is going to climate-impacting programmes and projects. In addition, if such diversion occurs, it is likely to move ODA away from sub-Saharan Africa to other regions, and away from health, education and agriculture to water and energy. Evidently, the poor and most vulnerable in programme countries need both traditional ODA funding and climate financing, allocated holistically in ways that help countries with the highest development and climate funding needs.

41. Another concern related to climate finance is how such monies will be spent. The lesson from ODA is that, in order to have the maximum impact on reducing poverty and fighting climate change, such monies will be most effectively spent by and for poor and vulnerable people in programme countries, through programmes coordinated by their Governments and integrated with their national and community sustainable development programmes, not through global vertical funds with programmes running parallel to Governments or by the private sector through market mechanisms. Nevertheless, most of the funding currently spent on adaptation and mitigation has been spent in middle-income countries and by the private sector,

and many of the current innovative financing proposals risk creating new vertical funds.

42. Consequently, there has been a series of recent proposals for innovative sources of climate financing, including global carbon taxes, taxes on international transport emissions, taxes on international financial or currency transactions, improved or wider market mechanisms and the establishment of "green funds" funded by IMF special drawing rights, gold sales or the sale of "green bonds" in global capital markets.

D. Aid allocation and progress towards the internationally agreed development goals

43. A key problem continues to be that the allocation of international development cooperation is not sufficiently conducive to maximizing progress towards achieving the internationally agreed development goals, including the Millennium Development Goals. This applies to allocation among developing country groups, regions, individual countries and regions within countries, as well as to allocation among channels, sectors and types of aid.

1. Country allocation: aid is not going to the countries that need it most

44. Since 2006, the positive trend in the proportion of aid going to low-income countries has been reversed, falling from 67 per cent to 61 per cent. Much of this reversal reflects a decline in debt relief. At the same time, the proportion of aid going to the most vulnerable country groups also fell: for least developed countries from 38 per cent to 29 per cent, for landlocked countries from 23 per cent to 17 per cent and for fragile States from 40 per cent to 35 per cent. Among vulnerable groups, only small island States received a slightly larger share (an increase of 0.5 per cent). As a result, in 2007 and 2008, lower-middle income countries received a higher proportion of aid than the least developed countries, and had higher ratios of ODA to GNI and ODA per capita than low-income countries.

45. According to the 2005 pledges, Africa's share of global aid was supposed to rise from 30 per cent to 40 per cent. Nevertheless, the regional shares of aid from Development Assistance Committee members have not changed significantly in recent years and, while aid to Africa may rise to 35 per cent by 2010 as a result of some donors making enhanced efforts, this is still well below the target, owing to a major shortfall in aid to Africa by Development Assistance Committee donors. The latest Committee forecasts of country programmable aid indicate no major change in these shares.

46. The other allocation problems highlighted in the report to the 2008 Development Cooperation Forum continue. Large amounts of aid still go to countries with relatively small numbers of poor citizens, and allocations are not correlated with measures of multidimensional poverty or needs that go beyond per capita income, nor do they take into account the amount of poverty reduction that can be achieved per dollar of aid. Most donors still have to establish an objective and transparent basis for allocating aid among countries, and continue to allocate bilateral aid based on political, strategic and economic interests. Some have adopted models to allocate aid or preselect recipients, based largely on donor-conducted assessments of "performance" and the quality of policies and institutions in programme countries. These undermine the principle of national ownership, because of a lack of Government and civil society involvement, and are neither transparent

nor objective in showing a clear link to objectively measurable development results. Other donors take country needs, outcomes and results, or the amount of aid a country is receiving from other donors, into account to a greater degree and are therefore more likely to allocate aid in ways conducive to attaining the internationally agreed development goals.

47. A considerable number of countries continue to receive more aid than would be expected on the basis of need or performance ("donor darlings"), and an almost equal number receive less than would be expected ("donor orphans"). The countries receiving more aid per capita or as a percentage of GNI than would be expected according to their needs in order to achieve the internationally agreed development goals tend to be those with small populations, those affected by conflict and some middle-income countries. On the other hand, fragile States that are not in post-conflict situations but that nevertheless face severe internal pressures, as well as African and Asian countries with larger populations, receive much lower aid per capita or as a percentage of GNI.

48. Aid allocation would ideally combine maximizing progress in achieving the internationally agreed development goals with the principles of effectiveness and equity in a transparent framework, taking into account the structural vulnerability of countries to external shocks. There is an urgent need for bilateral and multilateral agencies to review their allocations and reorient them more towards needs and vulnerability. Finally, it is essential that there continue to be regular assessments of allocations and strong recommendations to change allocations in order to ensure that their patterns are conducive to maximizing progress towards achieving the internationally agreed development goals.

49. Within countries, aid does not necessarily go to the poorest regions or the poorest groups. Many programme countries continue to indicate that donors tend to concentrate on regions or groups that are closest to the capital or to decent infrastructure, that are perceived as being the poorest or with which individual donors have long-standing ties. Donors indicate that some national development strategies do not focus on regions or groups with the most acute needs. As a result, within countries aid does not necessarily go where it will make the most difference to achieving the internationally agreed development goals.

2. Channels: multilateral aid share stagnant, rising earmarking must be reversed

50. Twenty-nine per cent of development cooperation is occurring via multilateral institutions. Development Assistance Committee donors have increased multilateral aid from 26 per cent to 30 per cent of disbursements (though some provide only 10 per cent multilaterally).

51. The United Nations experienced a 13 per cent real increase in contributions between 2006 and 2008, to $22 billion. Sixty-two per cent of this came from Development Assistance Committee donors, with contributions from non-Committee Governments rising from 7 per cent to 12 per cent and contributions from non-governmental sources rising from 13 per cent to 26 per cent. Almost 71 per cent of this funding was "non-core", however, with varying degrees of restriction on its use. Non-core funds rose by more than 300 per cent, compared with only 5 per cent for core resources, between 2006 and 2008.

52. This is part of a wider trend of earmarking 40 per cent of aid and more than 50 per cent of multilateral funds for financing particular initiatives, sectors or themes by allocating them to "vertical" (sector or issue-specific) global funds or

trust funds in multilateral institutions or by providing earmarked bilateral project or programme funding at the programme country level. This severely undermines freedom of programming by multilateral institutions and ownership by programme countries. Many funds are off-budget or fragmented, thereby increasing transaction costs and reducing the advantages of pooling funds via multilateral channels.

3. Sectoral allocation: sharp rise for infrastructure, smaller rise for governance and agriculture

53. The 2008 report highlighted a dramatic rise in the share of Development Assistance Committee aid going to social sectors and governance compared with during the 1980-2005 period, which was mirrored by a sharp fall in the share going to economic infrastructure and production (including agriculture). Between 2006 and 2008, Development Assistance Committee aid allocated to governance continued to rise, from 10 per cent to 12 per cent, while aid allocated to social sectors declined from 30 per cent to 26 per cent and aid allocated to infrastructure and production rose from 19 per cent to 26 per cent (with infrastructure accounting for almost all of that rise and agriculture the rest).

54. These trends are welcome in that they respond to the major infrastructure (transport, energy, water, and information and communications technology) and agricultural development needs contained in national development strategies but previously underfunded by providers, and which are crucial to attaining the income, poverty and hunger components of Millennium Development Goal 1. Southern providers have been particularly responsive, but more recently multilateral development banks and Development Assistance Committee donors have begun to refocus aid to these sectors. This move accelerated during 2009 and 2010, as donors channelled more funding to the private sector, infrastructure and agriculture in order to combat the impact of the global crises. Nevertheless, the share of total aid allocated to infrastructure is still below what it was in 2000.

55. The rise in aid allocated to governance is of uncertain benefit, however. While it potentially enhances the transparency and accountability of public financial management in programme countries, its long-term impact requires fuller analysis, especially because such aid is dominated by large technical assistance programmes.

Daunting needs for the Millennium Development Goals on education, health, water and nutrition

56. The fall in the share of aid going to education and health is worrying. Equally concerning is the skewing of education aid away from Education for All to tertiary scholarships in donor countries, and of health aid away from overall support of health systems and maternal and child health to "quick wins" relating to combating major diseases. Major increases are required in aid allocated to basic education and to basic health systems in order to reach the Millennium Development Goals. In addition, aid allocated to water and sanitation continues to be penalized; it is well below its share in 2000 and falls far short of the needs for achieving Millennium Development Goal 7. As already discussed, food security assistance needs to rise by $12 billion a year by 2012 if the nutrition target of Millennium Development Goal 1 is to be reached.

57. Similarly, a far higher amount of aid needs to be explicitly directed to achieving the gender-related internationally agreed development goals (Millennium Development Goals 3 and 5). A clear gender focus should also be present in all other

programmes to attain the wider internationally agreed development goals. The proportion of aid with this aim is still not effectively tracked (OECD tracks only 64 per cent of Development Assistance Committee ODA for its degree of gender focus). During the period 2000-2002, around 6 per cent of this aid was gender-specific and 6 per cent had an indirect gender impact. Thereafter, gender-specific aid fell; only in 2008 did it exceed 7 per cent of total aid for the first time.

4. Types and modalities of aid

Too little official development assistance reaches country programmes.

58. The proportion of bilateral ODA from Development Assistance Committee providers to developing countries for development purposes, as measured by country programmable aid, rose from 47 per cent in 2005 to 58 per cent in 2008. This reflects a 17 per cent fall in the share of debt relief, offset by a 1 per cent rise in emergency and food aid and a 5 per cent rise in costs for administration, scholarships and refugees in developed countries. Of ODA provided by multilateral institutions, more than 90 per cent goes to country programmes.

Budget support is more effective, efficient and sustainable but is growing too slowly.

59. Within overall (multilateral and Development Assistance Committee bilateral) country programmable aid, projects continue to represent more than 50 per cent and technical cooperation more than 30 per cent of such aid; budget and sector programmes have risen to 14 per cent. Studies continue to show that general and sector budget support is more effective, efficient and sustainable in producing development results, because it increases national ownership and accountability, disbursement speed and the distributional and operational efficiency of public expenditure. It also reduces the marginal transaction costs of scaling up, and has no greater risk of corruption or reduced budget revenue mobilization. This is why an increasing number of donors are turning to budget support, and several programme countries now receive more than 50 per cent of their aid in budget support.

E. Strengthening the aid quality and effectiveness framework

60. The quality and effectiveness of aid is a critical factor in achieving sustainable development and results with respect to the internationally agreed development goals. The present section looks at current processes for improving aid quality, as well as at progress on key indicators, both in Development Assistance Committee processes and in the additional priorities of key stakeholders.

1. From Paris to Accra: more behaviour change and multi-stakeholder representation needed

61. The 2005 Paris Declaration on Aid Effectiveness, in which 12 indicators were designated for monitoring, marked the first time that Development Assistance Committee donors and multilateral institutions had agreed collectively to improve aid quality by changing behaviour. The process of monitoring progress on these indicators since 2005 has focused attention on aid effectiveness at the country level and spurred the development of action plans by many OECD donors and multilateral agencies.

62. Progress in implementing the Paris Declaration has been disappointing, however. Overall, programme countries have made much more progress than providers in meeting targets, especially with respect to improving public financial management.

63. While some providers have taken fundamental steps to reshape their relationships with programme countries, the aid effectiveness agenda has not convincingly demonstrated an ability to change the behaviour of most donors. This is especially true in countries that receive lower levels of aid, which exacerbates aid allocation distortions by making aid less effective as well as insufficient, and in fragile States and low-income countries, meaning that aid is less effective precisely where its results need to be maximized.

64. The negotiation process for the Accra Agenda for Action engaged stakeholders more fully than did the negotiation process for the Paris Declaration. Building on a commitment in the Accra Agenda, the Development Assistance Committee Working Party on Aid Effectiveness has made enhanced efforts to involve other stakeholders since Accra.

2. Beyond the Paris Declaration: monitoring key aspects of the Accra Agenda for Action

65. The Paris Declaration and the Accra Agenda did not set clear enough indicators for several issues of key concern to programme country Governments, parliamentarians and civil society organizations (such as untying, capacity-building, predictability, accountability and transparency). They set no indicators for other issues (such as flexibility, conditionality, concessionality and cross-cutting themes such as gender, human rights and the environment). The present report has therefore drawn on other sources to monitor progress in these areas.

66. Tying of aid to purchases of goods and services in donor countries increases costs by 25 to 60 per cent, reducing value for money. In 2001, Development Assistance Committee donors agreed to untie aid (except food and technical assistance) to least developed countries. Many donors have gone further, increasing untied bilateral aid to 73 per cent in the period 2005-2007, up from 50 per cent during the period 1999-2001. Nevertheless, at least 30 per cent of technical cooperation and 50 per cent of food aid remain tied. In addition, informal distortions in procurement methods tend to favour suppliers from the provider country.

67. Progress in transforming technical assistance so that it genuinely builds capacity continues to lag. The Paris indicators do not track the impact of technical assistance on developing national capacity. Programme countries indicate that only around one quarter of such assistance builds capacity. There is an urgent need for tighter monitoring of the capacity-building results of technical assistance, for programme country leadership in the design and management of assistance and for the procurement of programme country expertise.

3. Ensuring predictability while maintaining flexibility

68. Predictable aid enables developing countries to plan long-term development strategies, medium-term expenditure frameworks and annual budgets.

Predictability has improved for some programme countries.

69. Aid continues to be much more volatile than budget revenue, and only 65 to 70 per cent of aid flows are disbursed by donors in the fiscal year for which they are scheduled. The Accra Agenda for Action did strongly urge donors to increase multi-year predictability by supplying multi-year indicative projections to programme countries. This has resulted in a sharp increase in multi-year projection reporting to OECD but a much smaller increase in reporting to programme countries (from only 40 per cent to 50 per cent). Only a little more than half of aid even has specific disbursement schedules included in agreements. A few advances have been made in increasing in-year predictability and raising multi-year predictability, however.

More flexibility is essential to fund changing priorities and counter exogenous shocks.

70. Flexibility is essential to respond to the changing priorities and mandates of Governments and to counter exogenous shocks, whether macroeconomic or related to natural disasters. Although donors have taken steps to increase flexibility in recent years by providing more budget support and improving IMF and United Nations mechanisms for countering shocks, this remains one of the poorest-performing aspects of aid, with more than 80 per cent of aid inflexible.

4. Policy and procedural conditionality

Policy conditionality remains a key cause of unpredictability and inflexibility.

71. A key cause of unpredictability and inflexibility is policy conditionality. Most Development Assistance Committee donors and multilateral organizations continue to disburse aid based on the implementation of negotiated policy measures, even though research has shown that policy-based conditionality is generally ineffective and unduly restrictive of policy space. Conditions are also too numerous and detailed, leading to long delays in disbursing aid to help counter shocks and exacerbating the negative effects of shocks on budgets and development.

72. There has been little progress in reducing conditions in recent years, because incentives within agencies continue to encourage this practice. Rather, there has been a continuing shift towards conditions on "governance", which are seen by programme countries as even more intrusive when they are not limited to public financial management and fiduciary issues. Some donors have reduced their conditions sharply, requiring only strong development strategies and public financial management and respect for international agreements on democracy and human rights. Nevertheless, they still endorse joint policy conditions with other donors for budget and sectoral support, which keeps conditions excessively numerous. Some programme countries have managed to increase budget support predictability by reducing the number of conditions and introducing high shares of guaranteed upfront annual disbursements and more transparency and flexibility in interpreting compliance in order to limit arbitrary suspension of disbursements.

73. The global financial crisis has increased conditionality by forcing many programme countries to borrow from IMF and multilateral development banks. While IMF showed greater flexibility in allowing programme countries to adopt fiscal stimulus measures in 2009, this is being reduced in 2010, and its streamlining of structural conditionality is not perceived by programme countries as being a

major change. Programme countries also indicate that World Bank development policy lending conditions are still excessive in number, though they have become less intrusive by being based more on results than on policy measures.

74. The move to outcome- and results-based conditions is part of a wider global trend, pioneered by the European Union and many of its member States, to replace detailed policy conditions with conditions based on results. This can provide programme countries with much greater policy space to choose their own policy measures for attaining national development goals. Other providers, however, have preselected eligible countries based on multiple policy indicators, defined "results" as applying to narrowly earmarked subsectoral indicators or monitored the results intrusively or inflexibly, relying principally on external actors such as auditors. This type of results-based conditionality, especially if it delays disbursements in order to provide "payment by results", can represent a step backward.

75. Procedural conditionality also continues to delay disbursement, especially of project aid. Some providers (especially South-South cooperation providers) have a record of fast disbursements, and others have streamlined procedures and decentralized their execution to the country level in recent years. For the worst performers, however, financial, institutional and appraisal preconditions can delay the start of disbursements by 18 months, and disbursement and procurement procedures by 21 months. The cumbersome procedures of some programme countries can also have the same effects, delaying compliance with donor conditions and project execution.

76. Overall, disbursement delays undermine the execution of key projects, waste resources that could be dedicated to achieving the internationally agreed development goals and lead to a false perception that programme countries are experiencing problems in absorbing aid. The Paris Declaration ignores many key delaying factors.

5. Increasing official development assistance is essential to keep debt sustainable

77. Between 2006 and 2008, in a reversal of earlier trends, the concessionality of ODA fell somewhat, whether measured by the proportion of grants or the grant element of loans or by total ODA. The international community has put in place frameworks to encourage prudent new lending and borrowing, which were made slightly more flexible in 2009, allowing more borrowing for countries with lower debt burdens and for high-return projects. Multilateral lenders also continue to provide large shares of grants to the most indebted countries, and IMF has reduced the cost of its lending to low-income countries during the crisis. There is not as yet a major risk of a new developing country debt crisis, but debt service is increasingly diverting programme country budgets away from development spending, and during the financial crisis many programme countries had to borrow expensively on domestic financial markets because external financing was delayed or unavailable. The crucial factor determining whether programme countries can finance their development while keeping debt sustainable will be the availability of adequate highly concessional ODA grants and loans, especially for low-income or vulnerable countries with foreign exchange earnings or budget revenues that are modest and volatile. Therefore, continuing commitments to increasing concessional ODA are essential to debt sustainability. Emphasis should be on grant financing and on ensuring an increasing role for debt relief.

6. Fragmentation and division of labour

78. One additional key concern has been the proliferation of providers and the fragmentation of aid into multiple projects, which has accelerated in recent years and could potentially rise further if new vertical climate financing funds are established.

79. Programme countries prefer a relatively diversified donor base, in order to enhance the stability and predictability of flows by diversifying risk, to provide more diverse perspectives on development issues and to increase funding for underfunded sectors, such as infrastructure and production. They prefer to have a reasonable number of "effective" and like-minded donors present across a range of sectors, and therefore regard fragmentation with much less concern than providers. Excessive fragmentation has many disadvantages, however, including conflicts over development priorities and conditionalities, increased earmarking and increased transaction costs per dollar of aid. It also undermines the capacity of programme countries by diverting staff to work as counterparts to or for providers, by resulting in aid being spent on technical assistance or implementation units to manage projects and by increasing the costs of aid coordination.

80. To offset proliferation and fragmentation, donors have tried to take the following actions:

(a) Cut the number of developing countries regarded as priority partners and receiving significant amounts of aid. Between 2004 and 2010, 11 Development Assistance Committee donors reduced priority partners, whereas only 5 expanded them (generally because they were sharply increasing aid flows). This has accelerated the concentration of aid in "donor darling" countries, however, and reduced stability and predictability in "donor orphan" countries;

(b) Reduce the number of donors in a country or particular sectors in a country through a division-of-labour exercise. Recent evaluations indicate that these have been successful in mapping donor presence and nominating lead donors for sectors, but less effective in assessing comparative advantage and reprogramming flows on that basis. Similarly, in terms of impact, while transaction costs may be declining, the quality of sector dialogue is not improving and the number of donors is not being rationalized enough, delaying improved aid effectiveness. The main reason for slow progress is that in many programme countries division of labour is driven by groups of donors (and opposed by others that want to stay in multiple sectors) rather than by a programme country analysis of which donors perform best in which sectors and which sectors need more donors.

F. Mutual accountability and transparency on development cooperation

81. Mutual accountability and transparency are two key factors with the potential to strengthen the impact of development cooperation on the internationally agreed development goals. Mutual accountability among providers of development cooperation, programme country Governments and non-executive stakeholders in provider and programme countries has the potential to ensure that all development cooperation targets clear results that are aligned with the national development strategies of programme countries and with the internationally agreed development goals in the most cost-effective, high quality and sustainable ways. Transparency in fully disseminating information and documentation on intended and actual results, as well as other aspects of development cooperation, is a key underpinning of

accountability, providing the information that all stakeholders need to analyse results.

82. The present section sets forth the results of an independent review of progress in mutual accountability and transparency at the national and international levels. This review, conducted in preparation for the Development Cooperation Forum, included comprehensive surveys of existing mechanisms and processes and their effects on behaviour change by programme countries and providers of development cooperation. These were based on best practices agreed by stakeholders at the November 2009 high-level symposium in Vienna. The analysis in the present section focuses on factors determining progress and the quality of mechanisms, as well as on further steps needed to accelerate progress, while underlining that precise steps need to be adapted to the circumstances of each country.

1. Improving accountability and transparency at the national level

Limited progress but strong foundations in a few countries.

83. Progress on mutual accountability is limited. In most developing countries, there is no shortage of forums for dialogue between provider and programme countries on national development programmes and their funding needs. The challenge, however, lies in making these into effective mutual accountability platforms. National mutual accountability mechanisms are those in which programme countries, as well as being held accountable for development results and their aid management, hold providers to account for their aid. Programme countries are already highly accountable to providers through multiple performance matrices that monitor their overall and sectoral progress and improvements in development strategies, public financial management, procurement and monitoring and evaluation. Providers are much less accountable to programme country Governments. The accountability of both providers and programme countries to other stakeholders (e.g., parliaments, audit offices and civil society), especially in programme countries, is very limited, as is the accountability of civil society organizations and foundations to programme countries.

84. Programme country national aid policies that include targets for individual providers and regular annual reviews of progress in meeting such targets are essential to accelerating progress on mutual accountability. The international community should prioritize supporting the efforts of recipients to develop such strategies and to conduct annual independent or programme country-led analyses of provider performance. This process should reach at least 30 countries by the end of 2011, in order to show much faster progress towards the Paris Declaration target of all Paris signatories having effective mutual accountability mechanisms by the end of 2010. Key providers should also commit to agreeing on and implementing national-level targets that are consistent with their global undertakings.

Need for annual global assessments of progress and the filling of information gaps.

85. There is a strong need for annual global assessments of progress on mutual accountability at the national level, in order to learn lessons and create pressure for the acceleration of behaviour change by both programme countries and providers. The Development Cooperation Forum could conduct these assessments, which could be discussed at high-level and technical-level meetings, to identify how the

international community can accelerate progress. There are also many information gaps with respect to what constitutes best practice on mutual accountability at the national level. This makes it urgent to establish a focal point at the international level to facilitate the sharing of best practice, especially among programme countries.

Improving participation by non-executive stakeholders is a top priority.

86. The international community should define mutual accountability as meaning that parliaments and other domestic stakeholders hold not only their own executive Government but also development cooperation providers responsible for aid and its results. Parliaments, decentralized Government agencies and civil society organizations should routinely be included in the governance of mutual accountability forums and produce independent analytical inputs, which should be given sufficient space for full discussion at top-level national mutual accountability meetings.

Policies, targets and mutual accountability processes must focus on the gender impact of aid.

87. Despite the prominence of gender in the internationally agreed development goals, aid effectiveness at the national level has not sufficiently focused on gender. To give a clear lead, the Fourth High-level Forum on Aid Effectiveness in Seoul in 2011 should have as a top priority the setting of gender-related targets.

Sub-Saharan African and fragile countries face particularly strong challenges.

88. Most sub-Saharan African and fragile countries are considerably less advanced with respect to national mutual accountability than other groups, exacerbating the tendency of less effective aid to be concentrated in these countries. It is urgent that the international community establish strong programmes to build capacity and strengthen institutions for aid management and mutual accountability processes for these countries. Fragile States should be treated on the same basis as other countries by requiring increased mutual accountability and improved performance by programme countries and providers in such countries.

Transparency at the national level is needed to assist accountability.

89. Transparency at the national level with respect to aid information is essential in order to improve accountability at the national level. It must be sharply improved, with a focus on steps that assist accountability, including the following: ensuring that national aid information systems track aid effectiveness targets; making these systems more accessible to non-State actors; making a wider range of information (especially on disbursements, aid forecasts, progress on achieving internationally agreed development goals and gender issues) available so that stakeholders can use it for accountability purposes; encouraging a wider range of providers to submit data at the national level, especially on results and progress towards internationally agreed development goals; and assisting non-executive stakeholders (especially parliaments) to build capacity to analyse such information.

Like-minded donors need to be even more proactive in leading mutual accountability at the national level.

90. Global-level policy changes, individual provider targets and peer pressure have been the key factors promoting behaviour change by providers of development cooperation. Like-minded donor leadership has been essential to give programme countries the space to set targets for individual providers. Therefore, to ensure balanced progress among providers, peer pressure needs to be exerted strongly for targets at the national level and policy changes at the global level, especially in countries where fewer providers are strongly committed to mutual accountability. Like-minded donors should assess national aid effectiveness progress not just by their own performance but also by the progress of mutual accountability among members of the wider donor group.

Non-Development Assistance Committee providers should be strongly encouraged to participate in national mutual accountability processes.

91. Non-Development Assistance Committee providers (Governments, global funds, non-governmental organizations and private foundations) should be encouraged to participate in mutual accountability at the national level. For this to be achieved, these providers will need to facilitate their own processes for developing their own targets for improving quality that reflect the comparative advantages of their development cooperation clearly. Such targets may need to be discussed in international forums such as the United Nations.

More analysis is needed of accountability in provider countries and institutions.

92. This Development Cooperation Forum cycle has not analysed accountability on aid in provider countries and institutions. It could be a priority aim of the next Forum cycle to identify best practices in the accountability of aid providers, working closely with organizations and coalitions representing non-executive stakeholders.

Much stronger connections are needed between international and national processes.

93. Much more effort is needed to connect mutual accountability and transparency processes at both the international and national levels. Useful findings from international mechanisms on provider or programme country comparative performance should be systematically presented to national mutual accountability forums, helping to set benchmarks for further progress and to suggest how they can be achieved.

2. Improving international transparency

Information provided by international transparency initiatives needs to be broader ...

94. Information provided in the context of international transparency initiatives should include projected disbursements, current indications and pledges and funding gaps for programmes and projects. It should clearly distinguish off-budget and off-plan aid, in order to make such information useful for planning and budgeting by

programme countries and providers. Such information should also include compliance with national and international aid effectiveness targets, results in achieving internationally agreed development goals and gender orientation, in order to allow much closer tracking of whether results are being achieved. In addition, it should include information on non-Development Assistance Committee Governments, civil society organizations and foundations, in order to make coverage more comprehensive, and it should further include comprehensive documentation, including loan and grant agreements, conditions, procurement documents and provider country strategies, in order to facilitate more in-depth analysis by stakeholders.

... more timely and aligned, and from wider sources ...

95. Information also needs to be more timely and aligned, and from a wider variety of sources. This implies the following: real-time information, with providers updating disbursement transactions immediately so that it is possible to track aid from provider to ultimate beneficiary; inputs from programme country Governments and stakeholders to ensure that provider inputs are accurate and aligned with programme country budget, plan and monitoring and evaluation cycles and systems; and, in particular, input from grass-roots stakeholders on tracking aid spending and results.

... and more accessible and systematically disseminated.

96. It is also essential to widen dissemination of information to a much broader range of stakeholders, to disseminate documentation that assists inexperienced users in accessing key elements essential for transparency at the national level, and to monitor any problems that stakeholders (especially programme countries) are having accessing or interpreting information.

The International Aid Transparency Initiative needs to be accelerated and widened.

Stakeholders need capacity to use the information to enforce accountability.

97. The top priority is to ensure that stakeholders, especially in programme countries, have the capacity to use the information for accountability purposes. This means producing an overall guide to where to find and how to access key information needed for transparency and accountability. Transparency and data access and analysis issues should also be included prominently in capacity-building programmes for programme country Governments and non-executive stakeholders.

98. The International Aid Transparency Initiative aims at addressing many of the problems discussed above, but its progress has been slow and it needs to cover a greater proportion of global development cooperation flows.

3. Improving international mutual accountability

International mutual accountability for development and humanitarian aid should be combined.

99. A complex range of mechanisms exists at the international level to assure accountability on development cooperation. They include official processes through

which programme countries and providers assess one another (mostly based on the Paris Declaration survey) and official "peer review" processes. There are also many independently managed assessments that have varying degrees of access to and impact on official discussions. Most of the mechanisms are globally based, but some have a specific regional focus, mainly on Africa.

100. There are entirely separate mechanisms for mutual accountability on development and humanitarian aid, as well as an additional parallel system for assessing donor engagement in fragile States. The international community should work to end the separation of mutual accountability mechanisms for development and humanitarian aid and for different categories of countries. This could be done by including humanitarian aid performance targets in the outcomes of the Fourth High-level Forum on Aid Effectiveness and in national mutual accountability mechanisms, and by integrating the process of assessing fragile States with that of overall discussions on aid effectiveness.

International mutual accountability needs to improve its sources and design, in order to be more relevant.

101. There is a strong need to strengthen inputs from programme country Governments and non-executive stakeholders to international mutual accountability mechanisms. This would make the content of international mutual accountability more relevant to national-level concerns by including indicators relating to transparency and multi-year predictability at the programme country level, as well as indicators on the degree to which providers are participating in mutual accountability and transparency mechanisms at the national level. It would also include indicators of key concern to these stakeholders, such as conditionality, capacity-building, flexibility, anti-corruption measures and gender focus.

It also needs to improve coverage, mutuality, timeliness, cooperation and country-level utility.

102. Additionally, the coverage of international mutual accountability mechanisms needs to be improved by further enhancing efforts to engage non-Development Assistance Committee providers, civil society organizations and foundations. Such mechanisms should assess the performance of individual providers at the individual programme country level. Their assessments should ideally be updated annually, preferably building on national-level annual assessments as much as possible in order to avoid a duplication of efforts. Greater cooperation should be pursued among international mutual accountability mechanisms by ensuring that official mechanisms and processes (such as communities of practice and capacity development programmes) use independent analysis to the maximum degree. International mechanisms should also track indicators that are relevant to national-level mutual accountability targets and goals.

It must enhance the impact on programme country and provider behaviour.

103. All of these steps should help international mutual accountability to enhance its impact on the behaviour of provider and programme countries, but additional steps are needed to ensure accelerated progress. These would include the following: assessing the behaviour of individual providers in the Paris Declaration survey reports; ensuring that independent assessments are presented to the Development Cooperation Forum and the Working Party on Aid Effectiveness; making sure that

programme countries, along with non-executive stakeholders, continue to enhance their role in setting the agenda and defining norms and targets in the Working Party on Aid Effectiveness and the Development Cooperation Forum; and surveying potential users of international mutual accountability mechanisms on their key needs in order to make international mechanisms more effective in supporting mutual accountability processes at the national level. The development of peer review mechanisms engaging developing countries should also be supported within international mutual accountability mechanisms, including the Development Cooperation Forum.

Annual progress assessments and more funding for priority mechanisms are needed.

104. It is important that the Development Cooperation Forum continue to assess progress on international mutual accountability and transparency, though the frequency of these assessments should ideally be made annual in order to track progress more closely. The assessments should also be extended to presenting publicly the progress of individual mechanisms in implementing the above recommendations. Based on these assessments, the international community should prioritize for additional funding four or five key mechanisms that most closely fulfil the criteria described above (especially systematic assessment of individual providers by programme countries and independent sources, and strong non-executive stakeholder voices) in order to overcome their shortcomings and increase their impact on behaviour change at the international and national levels.

G. South-South and triangular development cooperation

105. South-South and triangular development cooperation continues to grow in importance, rising from 8 per cent to 10 per cent of total development cooperation between 2006 and 2008. In many other respects, however, its characteristics and comparative advantages have remained the same as those reported to the Development Cooperation Forum in 2008. The High-level United Nations Conference on South-South Cooperation, held in Nairobi from 1 to 3 December 2009, emphasized that South-South cooperation is not a substitute for, but is complementary to North-South cooperation and that South-South cooperation is an important element of international cooperation for development.

1. Scale and scope of South-South development cooperation[3]

South-South development cooperation rose sharply to $16.2 billion in 2008 ...

106. Continued rapid economic development in a number of developing countries, their more rapid recovery from global economic crisis and a growing awareness of their role in the global economy led to a 63 per cent rise in South-South development cooperation between 2006 and 2008, owing mainly to sharp increases in flows from China and Saudi Arabia. Of this total, around 25 per cent was provided through multilateral organizations.

[3] In order to distinguish it from other South-South flows, which are also growing rapidly, development cooperation discussed in the present report covers only flows that match the definition of official development assistance used by the Development Assistance Committee.

... and is provided mostly as project aid and technical assistance, but with a growing humanitarian focus.

107. Most South-South development cooperation (around 90 per cent) continues to come in the form of project finance and technical assistance, with only around 10 per cent in balance-of-payment or budget support. Some contributors are planning to move to more programme-based approaches in future. In addition, there is an increasing focus on humanitarian assistance, which exceeded $1 billion in 2008, especially by Arab providers (with Saudi Arabia being the third largest global provider of humanitarian assistance).

108. Many contributors to South-South cooperation have programmes that are co-financed by triangular cooperation, whereby Development Assistance Committee donors finance projects executed by Southern institutions. The focus of triangular development cooperation is primarily technical cooperation, because Southern institutions are seen as having expertise relevant to meeting the needs of developing countries. Among 23 Development Assistance Committee donors, 16 have participated in triangular cooperation projects. Multilateral development banks, United Nations organizations and Southern providers of development cooperation are also increasingly using this modality. There is a need for more information to quantify the amounts and to conduct a detailed analysis of the scope, quality and impact of triangular development cooperation.

109. Contributors to South-South development cooperation continue to allocate most assistance to countries with which they have close political, trade and investment ties. This includes a strong concentration in nearby regions, reflecting cultural and language links, a better understanding of needs, trade and investment opportunities and lower administrative costs. The concentration also allows Southern contributors to focus strongly on regional projects, which are a priority of many programme countries. Such concentration has accelerated since 2006, with new initiatives such as the creation of an Association of Southeast Asian Nations (ASEAN) infrastructure development fund and the Banco del Sur. There has also been an expansion of cooperation among regions, especially with Africa by Brazil, China and India and with Asia by Saudi Arabia.

2. Salient features of South-South development cooperation

Concessional lending for South-South cooperation carries less risk of making debt unsustainable.

110. Around two thirds of Southern assistance is provided as loans and approximately one third as grants. For most low-income countries, these loans carry little risk of making debt unsustainable, because they are concessional, in line with programme country policies. There have been some notable exceptions, however, for large infrastructure or minerals projects, raising concerns about the sustainability of debt for a few countries.

111. Programme countries see South-South cooperation as aligned with their priorities in a relatively balanced way, providing considerable funding for infrastructure and productive and social sectors (see paras. 119 to 121 below). Some contributors pass almost all aid through the budget of the programme country, while others channel virtually all aid in an extrabudgetary manner.

South-South development cooperation continues to balance flexibility and predictability.

112. Contributors to South-South cooperation are also seen as being responsive to changing priorities in programme countries and to natural disasters, even though they do not have formal contingency allowances or facilities specifically designed to combat exogenous shocks.

113. South-South development cooperation is seen as relatively predictable, because around three quarters of it is disbursed within the scheduled financial year, a process which facilitates fiscal planning. Many projects are also executed more rapidly than those of Development Assistance Committee providers, although some contributors have been less predictable than others and some projects have run into execution delays.

Policy conditionality is largely absent, and procedures are more flexible.

114. One reason for the predictability of South-South cooperation is that policy conditionalities are largely absent, making it more attractive to programme countries. A second reason for predictability is that such cooperation is relatively unencumbered by procedural and administrative delays. This is because most South-South cooperation providers use their own relatively uncomplicated financial management and procurement procedures and a few use national financial management procedures.

115. South-South development cooperation is mostly tied to procurement of the goods and services from the provider country, especially for technical cooperation and emergency aid. This does not necessarily mean it is of a high cost or poor standard, because Southern goods are often of good value and cost-effective. Some contributors, in particular Arab contributors, give preference to bidders from programme countries.

3. Coordination and interaction at the country level

116. South-South development cooperation is subject to relatively little evaluation beyond scrutiny of the timeliness and completion of projects. This reduces missions and studies, lowering transaction costs for the Governments of programme countries, but it also means that there will be a reduced longer-term perspective on the sustainability and development impact of the project. This cooperation also includes much less evaluation with respect to the environmental and social impact, particularly in the case of infrastructure projects.

South-South cooperation providers could enrich national development cooperation dialogues.

117. Most South-South development cooperation providers do not participate in harmonization initiatives with other providers, except through some regional and country-led forums. An interesting exception is the high degree of procedural harmonization among Arab contributors through the Arab Coordination Group, whose members usually co-finance projects. Similarly, most South-South providers are not involved in national dialogues or accountability processes led by programme countries.

118. Greater involvement on the part of South-South providers could vastly enrich the dialogue in-country by suggesting new ways to assess the quality and impact of development cooperation, including speed of delivery, value for money, appropriate technology transfer and sustainable capacity development. It would also allow programme countries to have a better overview of development cooperation, as has been seen when they have participated in dialogues among South-East Asian programme countries, and should therefore be encouraged.

4. Key sectors: scope for high impact in infrastructure, medicine and agriculture

119. Infrastructure development accounts for a large share of South-South cooperation. In Africa, it is estimated that non-OECD countries made $2.6 billion of infrastructure commitments annually between 2001 and 2006, and that this financing continued to grow in 2007 and 2008. China, India and the Arab States have been the major Southern contributors to Africa's infrastructure. There are significant complementarities between non-OECD and OECD providers, with non-OECD providers assuming an important role in roads, water supply, power systems, electrification and telecommunications. Analysis is being undertaken to identify the comparative advantages of South-South infrastructure cooperation more clearly.

120. South-South medical cooperation has expanded rapidly in recent years. Bilateral cooperation focuses on health delivery (human resources development, the building of health systems and the provision of medical facilities and infrastructure). Scientific and technological collaboration and joint research on health problems are increasing, albeit mainly among technologically advanced Southern providers. Various collaboration networks exist to facilitate South-South cooperation, with a strong focus on problems specific to developing countries, such as malaria and other tropical infectious diseases. The private sector has also played a catalytic role in developing, marketing and distributing lower-cost health inputs. Nevertheless, the level of South-South cooperation remains low, owing to a lack of supporting public sector resources and the predominance of multinational corporations in global procurement. Analysis is continuing to identify prospects for public resources and more open procurement in order to expand the provision of lower-cost health inputs to low-income countries.

121. Regarding agriculture, South-South cooperation has a long history of offering policy experiences and appropriate technologies to boost agricultural productivity (given similar soil and climatic and ecological conditions) and has recently also focused on creating new investment and market opportunities for the output of programme countries. China and India have both recently announced large expansions of agricultural cooperation. Technical cooperation, notably technology transfer and local capacity-building, remain the main forms of collaboration, with the Arab States, Brazil, China, India and South Africa as primary providers, mostly in partnership with Africa. Nevertheless, South-South cooperation in agriculture can only maximize development impact if it tackles broader issues such as market access to developed countries and trade finance and facilitation.

V. Policy messages and recommendations

122. Most areas of the global partnership for development are not living up to expectations and, without progress across the board, development cooperation will have a limited impact. Measures need to be taken to reduce volatility and increase

the development impact of private flows (FDI and remittances), complete a strong pro-poor Doha trade round, broaden debt relief, establish a fair and transparent debt workout procedure, develop pro-development global financial regulations and further enhance the voice and participation of developing countries in the international financial architecture.

123. There has been relatively little progress on policy coherence for development. More impact analysis and systematic political engagement by OECD countries, publication of annual reports by providers of development cooperation on their progress on Millennium Development Goal 8 and development by programme countries of "beyond aid" partnership policies that cover all Millennium Development Goal 8 aspects could help provider countries to pursue policies that will make their development cooperation more effective. There is also an urgent need to develop norms and best practices for improving the quantity and quality of aid intended to promote other types of financing for development (e.g., FDI, trade, domestic savings and tax revenue).

124. Overall development cooperation exceeded $170 billion in 2009. In spite of a large rise in real terms, the share of OECD Governments is declining, while South-South cooperation and private philanthropy have risen sharply. There is a need for further monitoring and analysis of flows from Southern foundations, as well as decentralized cooperation. All OECD providers need to set ambitious targets for 2015 and put in place five-year plans for scaling up disbursements, which will be most effectively achieved by increasing their programme-based aid flows, including budget support. The Fourth High-level Forum on Aid Effectiveness will be a good opportunity to indicate these commitments.

125. The multiple global crises (food, oil and financial) during the period 2006-2010 have increased the financing needs of programme countries dramatically and resulted in the enhanced application of innovative mechanisms to fulfil financing needs. Such mechanisms have produced relatively little additionality of funding, and some cuts in future OECD aid budgets, however. Greater efforts will be needed to scale up development cooperation using innovative financing mechanisms, thereby reversing the negative impact of the crises on progress towards achieving the internationally agreed development goals.

126. The 2009 Conference of the Parties to the United Nations Framework Convention on Climate Change in Copenhagen resulted in major commitments of climate finance. These fall well short of the public sector finance needed for adaptation and mitigation, which would equal 50 to 80 per cent of ODA flows, and there is major concern about diversion of funding, especially away from reaching the internationally agreed development goals in Africa. Provider Governments should pledge that all climate financing will be additional to the ODA amounts needed to reach the internationally agreed development goals, make maximum use of innovative financing (taxes and special drawing rights) and ensure that climate finance is spent in pro-poor ways that maximize its impact on progress towards the internationally agreed development goals.

127. Allocation of development cooperation among developing country groups, regions, countries and regions within countries continues to be suboptimal for making progress on the internationally agreed development goals. It is vital to increase the proportion of aid going to those countries with the greatest needs, financing gaps and structural vulnerabilities to external shocks (i.e., the least developed countries, landlocked countries and fragile States, especially in Africa). To achieve this, bilateral and multilateral agencies need to review their allocation

formulas, set concrete annual targets and make plans to scale up aid to such countries.

128. Allocation in terms of channels, sectors and types is also suboptimal. Multilateral institutions need to receive greater shares, but with less earmarking for specific sectors or initiatives. Gender, food security, education, health, water and sanitation all need sharp increases. Infrastructure and wider aid for trade need to continue their recent rises in line with national development strategies. More Development Assistance Committee ODA needs to reach country programmes, and future donor progress should be assessed based on this. General and sector budget support needs to rise much more sharply in order to increase ownership, accountability and efficiency.

129. Progress on Paris Declaration targets for aid effectiveness (especially by providers) needs to accelerate dramatically, especially in fragile States. The Fourth High-level Forum on Aid Effectiveness in 2011 needs to be led much more by programme countries and non-executive stakeholders. It also needs to lead to improvements in the way progress is measured (on untying, capacity-building, predictability and accountability) and to broaden targets to include additional key concerns of stakeholders (use of programme country evaluation systems, flexibility to combat exogenous shocks, reducing policy and procedural conditionality, maintaining concessionality levels, having a more nuanced approach to the division of labour among providers of development cooperation, targeting aid to gender, human rights and protecting the environment, and combating corruption).

130. Recent attacks on global development cooperation have shown the need to focus, through a coordinated campaign, on publicizing the major internationally agreed development goals and the sustainable development results being produced by development cooperation, as well as its low levels of corruption compared with other sectors. The High-level Plenary Meeting of the General Assembly on the Millennium Development Goals in September 2010 should support such a campaign by enhancing the capacity of United Nations organizations for real-time monitoring and dissemination of results in achieving the internationally agreed development goals and improving aid effectiveness. It is important to focus on maximizing results, building on best practices relating to budget support that give programme countries greater policy space and avoiding the preselection of countries based on conditionality, earmarking, intrusive or inflexible monitoring and disbursement delays.

131. Mutual accountability and transparency are two key ways to strengthen results in achieving the internationally agreed development goals. Providers need to commit to individual targets to improve aid quality in each programme country, giving priority to country groups such as sub-Saharan Africa and fragile States that are lagging behind on progress towards the internationally agreed development goals. Programme countries need to continue their improvements in development strategies, public financial management, procurement and evaluation. Mutual accountability processes need to be led by programme country Governments, with the engagement of parliaments and civil society organizations, and to focus more on the gender impact of aid. Providers need to be proactive in promoting progress at the national level, and non-Development Assistance Committee providers should be encouraged to contribute their own ideas for targets to improve aid quality.

132. The international community should set high standards for international mechanisms to ensure mutual accountability between providers and recipients of development cooperation on commitments made. It should assess progress annually,

create a focal point to share best practices and lessons learned and fully fund the most useful international mechanisms. Transparency mechanisms need to broaden information on aid and its sources, make such information more timely and aligned with programme country systems, ensure that it is systematically disseminated and build stakeholder capacity to use such information to enforce accountability. Official global mutual accountability mechanisms should be rationalized, input by programme country Governments and non-executive stakeholders increased, and coverage, mutuality, timeliness and country-level relevance improved, in order to enhance the impact on the behaviour of programme countries and the providers of development cooperation.

133. South-South cooperation could increase its use of budget and programme support to enhance leadership by beneficiary countries, and it could use more detailed evaluation to demonstrate results. The international development cooperation system needs to capitalize fully on the comparative advantages of South-South development cooperation in providing appropriate and cost-effective medical and agricultural technology and infrastructure expertise. South-South cooperation providers could vastly enrich national development cooperation dialogues by suggesting ways to assess quality and impact (including aspects such as speed of delivery, value for money, technology transfer and capacity development).

134. Finally, the Development Cooperation Forum should strengthen its work on policy coherence by identifying best practices for countries to develop policies that go "beyond aid" to cover all aspects of Millennium Development Goal 8, and for aid to promote other types of financing for development. The Forum should continue to conduct regular assessments of trends in development cooperation (especially allocation and gender issues) and of progress on mutual accountability and transparency. The Forum should also increase its monitoring and analysis of decentralized cooperation and Northern and Southern foundations, and continue to strengthen the multi-stakeholder nature of its consultations, especially at the Forum itself.